MULTIMEDIA UNIVERSITY

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FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BEC1624 –MACROECONOMICS

(All sections / Groups)

9 MARCH 2018
9:00AM – 12:00PM
(3 HOURS)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 5 pages with 5 questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1 (20 MARKS)

(a) **Table 1** shows the value of nominal GNP and the price index for a country.

Table 1

ITEM / YEAR	2005	2010	2015
Consumer Price Index	100	105	110
Nominal GNP (RM 'million)	38,000	41,000	42,100
Population (in million)	30	32	35
Real GNP (RM 'million)			
Real GNP per capita			

i. Re-create **Table 1** in your answer booklet. Calculate real GNP for the years 2005, 2010 and 2015. *Show all calculations.*

(6 marks)

ii. Using the same table created in Question (a)i, calculate real GNP per capita for the years 2005, 2010 and 2015. *Show all calculations.*

(6 marks)

(b) KUALA LUMPUR: Malaysia's consumer price index (CPI) growth eased to 3.2 per cent in July compared with 3.6 per cent in June 2017.

The Statistics Department said the transport index contributed the most increase at 7.7 per cent, followed by food and non-alcoholic beverages (4.2 per cent), health (2.9 per cent) and recreation services and culture (2.6 per cent).

Source:
Damodaran, R. (2017, August 23), Malaysia's CPI eases to 3.2pc in July. *New Straits Times*, Retrieved from: http://www.nst.com.my

Based on the excerpt above, explain how the Consumer Price Index (CPI) is calculated.

(8 marks)

Continued....

QUESTION 2 (20 MARKS)

(a) According to the Standard and Poor's (S&P) global ratings, "Escaping middle incomes trap a continuous challenge for Malaysia."

Explain **THREE (3)** government actions to raise productivity and living standards of Malaysians in order to become high income country.

(9 marks)

(b) Development in human capital is relatively more important than advancement in technology is more important in determining the productivity of a country.

Differentiate between the roles of human capital and technology in leading productivity.

(5 marks)

(c) "Between 2008 and 2015, Hong Kong not only ran budget surpluses, but surpluses in excess of expectations, with the gap being consistently underestimated by the city state's government."

Source:
Martin, W. (2016, October 7), The 12 countries with the world's biggest budget surpluses, *Business Insider*, Retrieved from http://www.businessinsider.com/

Using the diagram of the market for loanable funds, appraise the consequences of budget surplus run by the Hong Kong government.

(6 marks)

Continued....

QUESTION 3 (20 MARKS)

(a) KUALA LUMPUR: Bank Negara Malaysia (BNM) is reducing the statutory reserve requirement (SRR) ratio from 4.00% to 3.50%, effective from Feb 1, to ensure sufficient liquidity in the domestic financial system.

The central bank said on Thursday the lowering of the SRR was also to support the orderly function of the domestic financial markets.

Source:
Chin, J. (2016, January 21), BNM lowers statutory reserve requirement for banks to 3.5%. *The Star Malaysia*, Retrieved from: http://www.thestar.com.my

i. Define Statutory Reserve Requirements (SRR). (4 marks)

ii. List **all** the subsequent effects of BNM's action of lowering the statutory reserve requirements for banks, as mentioned in the above excerpt. (6 marks)

iii. Explain why a central bank **rarely** uses changes in SRR to change money supply. (4 marks)

(b) Explain how would the following monetary policy options changes the money supply.

i. The central bank buys bonds. (3 marks)

ii. The central bank raises the discount rate. (3 marks)

QUESTION 4 (20 MARKS)

(a) Economists have long argued that increases in worker pay can lead to improvements in productivity – indeed, that it can actually be profitable to pay workers higher wages.

Source:
Wolfers, J. & Zilinsky, J. (2015, January 18), Ten Reasons Workers Should Be Paid More, *Newsweek*, Retrieved from: http://www.newsweek.com/

Determine **FOUR (4)** ways how raising wages to above-equilibrium wages or efficiency wages by firms can lead to larger profits for the organisation. (10 marks)

Continued....

(b) KUALA LUMPUR, Aug 3 — Foreign investors sold off Malaysian stocks for 14 straight weeks up to the end of July — the longest since 2008 — MIDF Equities Research said in its report today.

Source:
The Malay Mail (2015, August 3). Analyst: Bursa Malaysia hit by longest foreign capital flight of seven years, *The Malay Mail*, Retrieved from: http://www.themalaymailonline.com

Assess the impact of capital flight on the Malaysian open economy. Provide a three-panel diagram which includes the market for loanable funds, net capital outflow and the market for foreign currency exchange to demonstrate the effects.
(10 marks)

QUESTION 5 (20 MARKS)

(a) Florida's agriculture industry took a big hit from Hurricane Irma, with early estimates showing up to 30 percent of some major crops had losses.

Source:
Daniels, J. (2017, September 11), Irma may have caused losses of up to 30 percent on some major ag crops in Florida, Retrieved from: https://www.cnbc.com/

Economics thinking indicate that the prices of these crops have soared.

Discuss the impact of the hurricane and subsequent price increase on inflation and unemployment with an aggregate-demand and aggregate-supply diagram, and the Phillips-curve diagram. What will happen to inflation and unemployment in the short-run?
(10 marks)

(b) Whether we call it employment insurance or unemployment insurance, Malaysians will have plenty to talk about if the Government decides to go ahead with the introduction of an insurance scheme to help both workers and employers to cope with a more demanding labour market.

Source:
The Star Malaysia. (2016, May 4), Work towards an insurance scheme to protect all. *The Star Malaysia*, Retrieved from: http://www.thestar.com.my

Explain how unemployment insurance acts as an automatic stabiliser.
(4 marks)

Continued...

(c) Suppose that Bill, a resident of the United States, buys software from a company in Japan.

Explain why and in what directions this would change U.S. net exports and U.S. net capital outflow.

(6 marks)

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